

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 ARAE-00 SSO-00 NSCE-00 USIE-00 INRE-00
SP-02 AID-05 EB-08 NSC-05 TRSE-00 SS-15 STR-04 OMB-01
CEA-01 L-03 H-01 PA-01 PRS-01 CIAE-00 COME-00 FRB-03
INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01 DHA-02
ERDA-05 OES-06 EUR-12 DODE-00 PM-04 ITC-01 /108 W
-----141757Z 026444 /53

O 141700Z MAR 77
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC IMMEDIATE 521

C O N F I D E N T I A L SECTION 1 OF 2 BRASILIA 1973

E.O. 11652: GDS
TAGS: ETRD, EFIN, BR
SUBJ: BILATERAL TRADE ISSUES

REF: (A) BRASILIA 1809; (B) BRASILIA 1652

1. IN LIGHT OF THE PENDING DORNELLES/PINTO
VISIT, AND THE ON-GOING INTER-DEPARTMENTAL
REVIEW OF THE ITC RECOMMENDATION ON SHOES, I
WISH TO PUT FORTH FOR CONSIDERATION AT HIGH
LEVELS A NUMBER OF POINTS RELATED TO OUT-
STANDING BILATERAL TRADE ISSUES. I AM
MOTIVATED BY THREE RELATED NECESSITIES:

(A) TO CONTINUE THE EFFECTIVE DIALOGUE
WE HAVE HAD WITH BRAZIL IN THE MOST RECENT
PAST ON TRADE ISSUES, PARTICULARLY COUNTER-
VAILING DUTIES; (B) TO DEMONSTRATE TO THE
GOB THAT, DESPITE THE SERIOUS
DIFFICULTIES THAT HAVE ARISEN IN THE NUCLEAR AND
HUMAN RIGHTS FIELDS, WE ARE PREPARED TO PURSUE OUR
TRADE RELATIONS UNRELATED TO THESE OTHER
FACTORS; AND (C) TO AVOID EXACERBATING THESE
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ISSUES, AND PERHAPS TO REDUCE THEIR ADVERSE
EFFECTS, BY BEING RESPONSIVE TO BRAZILIAN
TRADE CONCERNS TO THE MAXIMUM DEGREE POSSIBLE.
I HASTEN TO ADD THAT, AS I HAVE SAID BEFORE,
WE SHOULD NOT DELUDE OURSELVES INTO BELIEVING
THAT OUR FLEXIBILITY IN THE TRADE AREA WOULD
REMOVE OUR DIFFERENCES OVER THESE OTHER ISSUES.

ON THE OTHER HAND, IT IS UNDENIABLE THAT THE IMPOSITION OF ADDITIONAL TRADE RESTRICTIONS BY THE U.S. WILL SHARPEN NON-TRADE ISSUES AND WILL BE INTERPRETED, IN THE CURRENT HIGHLY EMOTIONAL ENVIRONMENT, AS PRESSURES OR REPRISALS CONNECTED WITH THE OTHER ISSUES. OUR COMMENTS ARE SPECIFICALLY DIRECTED TO THE PENDING PRESIDENTIAL DECISION ON SHOES AND TO THE POSSIBLE WAIVER OF COUNTERVAILING DUTIES ON COTTON YARN AND SCISSORS AND SHEARS.

2. SHOES: IN ADDITION TO MAINTAINING THAT A TARIFF-QUOTA IS NOT JUSTIFIED ON THE GROUNDS THAT IMPORTS ARE NOT THE ROOT CAUSE OF THE PROBLEMS BESETTING THE U.S. SHOE INDUSTRY, THE GOB STRONGLY BELIEVES THAT THE 1974 BASE RECOMMENDED BY THE ITC DISCRIMINATES AGAINST EXPORTERS, MOST OF THEM LDCS LIKE BRAZIL, WHOSE SHARE OF THE U.S. MARKET HAS INCREASED SIGNIFICANTLY IN RECENT YEARS. RIGHTLY OR WRONGLY, THE BRAZILIAN PERCEPTION OF THE ITC RECOMMENDATION IS THAT IT IS TRYING TO PROTECT COUNTRIES LIKE ITALY AND SPAIN ON STRATEGIC/MILITARY/POLITICAL GROUNDS. BRAZILIAN PUBLIC OPINION HAS BEEN LED TO BELIEVE THAT THE U.S. IS PREPARED TO SACRIFICE COUNTRIES OF LESS STRATEGIC IMPORTANCE, LIKE BRAZIL, IN ORDER TO HELP SOME OF THE EUROPEAN ALLIES. NO MATTER HOW FORCEFUL THE ECONOMIC LOGIC OF OUR CONFIDENTIAL

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POSITION MAY BE, THE EMOTIONALISM AROUSED BY THIS ARGUMENT IN THE PRESENT INFLAMED ATMOSPHERE HAS COMPLETELY OVERSHADOWED THE FACTS OF THE CASE.

3. SINCE IT APPEARS UNLIKELY TO US THAT THE PRESIDENT WILL BE ABLE TO REJECT THE ITC RECOMMENDATION AND OPT FOR NON-RESTRICTIVE REMEDIAL ACTIONS, SUCH AS ADJUSTMENT ASSISTANCE, IT IS OUR JUDGMENT THAT AN EFFORT ON THE PART OF THE EXECUTIVE TO MODIFY THE BASE OF THE ITC RECOMMENDATION, THUS IMPROVING BRAZIL'S POSITION VIS-A-VIS ITALY AND SPAIN, WOULD ASSIST IN REDUCING THE UNPALATABILITY OF A TARIFF-QUOTA IN BRAZILIAN EYES. THIS BY NO MEANS IMPLIES THAT THERE WOULD NOT BE A STRONG NEGATIVE BRAZILIAN REACTION TO A TARIFF-QUOTA ON A MODIFIED BASE. WE CAN EXPECT A BARRAGE OF CRITICISM TO ANY SUCH DECISION. FURTHERMORE,

THERE WILL BE THOSE WITHIN THE GOB WHO WILL
TAKE ADVANTAGE OF THIS SITUATION FOR INTERNAL
POLITICAL PURPOSES, AS WAS CLEARLY THE BASE
WITH THE HUMAN RIGHTS REPORT. HENCE, THERE
IS A HIGH PROBABILITY OF RETALIATORY MEASURES
AGAINST U.S. IMPORTS. NEVERTHELESS, A
MODIFICATION OF THE BASE THAT PUTS BRAZIL
IN A MORE FAVORABLE POSITION WOULD LIMIT
NEGATIVE REACTIONS AND WOULD REDUCE THE
SCOPE AND INTENSITY OF RETALIATORY
MEASURES BY STRENGTHENING THE POSITION OF THOSE
WITHIN THE GOB, SUCH AS THE FINANCE MINISTER,
WHO DO NOT WANT A "TRADE WAR" WITH THE U.S.

4. THE MODIFICATION WE HAVE IN MIND IS TO SHIFT
THE BASE TO 1975, OR 1976, AN AVERAGE OF 1975-76
OR TO AVERAGE OF 1974-76.
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ACTION ARA-10

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ERDA-05 OES-06 EUR-12 DODE-00 PM-04 ITC-01 AGRE-00
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-----141757Z 026336 /53

O 141700Z MAR 77

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC IMMEDIATE 522

C O N F I D E N T I A L SECTION 2 OF 2 BRASILIA 1973

5. COUNTERVAILING DUTIES: ON THE QUESTION OF
A POSSIBLE WAIVER FOR COTTON-YARN AND SCISSORS
AND SHEARS, WE FULLY APPRECIATE THE LOGIC OF
TREASURY'S POSITION IN TRYING TO WORK OUT A

GENERAL AGREEMENT, IN CONTRAST TO THE AD HOC APPROACH PREVIOUSLY PURSUED. IN THIS CONNECTION, HOWEVER, WE WISH TO POINT OUT THAT THE BRAZILIAN SYSTEM OF EXPORT INCENTIVES IS SO INEXTRICABLY TIED TO THE WHOLE FISCAL STRUCTURE OF BOTH THE STATE AND FEDERAL GOVERNMENTS THAT A SHORT-TERM SOLUTION IS VERY DIFFICULT. IT MAY BE RECALLED THAT SIMONSEN PROMOSED US BACK IN 1974 THAT ONE OF THIS MAIN OBJECTIVES DURING HIS TENURE AT THE FINANCE MINISTRY WAS TO ELIMINATE THE CURRENT SYSTEM OF EXPORT INCENTIVES AND REPLACE IT WITH A KIND OF TURNOVER TAX SYSTEM, MUCH LIKE THAT OF SOME EUROPEAN COUNTRIES. SIMONSEN ARGUES THAT EXPORT INCENTIVES ARE DESIGNED TO OFFSET THE HIGH COST TO FIRMS OF THE VARIOUS SOCIAL PROGRAMS, AND HE IS THEREFORE NOT PREPARED, FOR OBVIOUS REASONS, TO WITHDRAW THESE INCENTIVES WITHOUT SUPPLANTING THEM

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WITH SOME OTHER SYSTEM WHICH WOULD BE ACCEPTABLE TO THE GATT. IN FACT, HE IS ALREADY TAKING A LOT OF POLITICAL HEAT FOR HAVING AGREED TO THE WITHDRAWAL OF THE ICM CREDITS ON SHOES.

6. PERHAPS AS A RESULT OF OUR DESIRE FOR AN OVERALL APPROACH, SIMONSEN WILL FOCUS ONCE AGAIN ON THE NEED TO ELIMINATE THE CURRENT INCENTIVE SYSTEM, WHICH, INCIDENTALLY, RUNS AFOUL NOT ONLY OF THE U.S. LEGISLATION BUT THE LAWS OF MANY OF THE EUROPEAN COUNTRIES AS WELL. THE POINT WE WISH TO STRESS HERE IS THAT EVEN IF THE GOB AGREES TO ELIMINATE THE PRESENT SYSTEM IT WOULD TAKE AT LEAST TWO YEARS TO ACCOMPLISH IT, BECAUSE, AS ALREADY NOTED, OF ITS COMPLEXITIES. ACCORDINGLY, WE HOPE THAT WASHINGTON AGENCIES WILL BE AS FLEXIBLE AS POSSIBLE WITH RESPECT TO TIMING, WITHIN THE CONSTRAINTS IMPOSED BY EXISTING LEGISLATION AND THE CONGRESS, WHEN TALKING TO DORNELLES ABOUT THE POSSIBILITY OF A WAIVER IN AN EXCHANGE FOR A COMMITMENT TO OVERHAUL THE PRESENT EXPORT INCENTIVES SYSTEM.

7. I WOULD APPRECIATE AN URGENT HIGH-LEVEL ADDRESS TO THE POINTS RAISED IN THIS MESSAGE AND AT LEAST A PRELIMINARY REACTION AS SOON AS POSSIBLE.

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Message Attributes

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Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
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